



A Verisk Business

WHITE PAPER

Pricing Methodology Summary

The following document contains information related to Xactware's methodology, options, and product features for creating estimates. The intent is to consolidate information from the multiple individual white papers and documents available to date and present them in a concise, highlevel view with links to the original (detailed) documents.

RESEARCH AND ANALYSIS METHODOLOGY

Individual costs required to repair or rebuild a structure can vary between structures due to differences in size, complexity, accessibility, and location. Additionally, prices charged by contractors and suppliers vary based on their company's size (overhead) and/or perceived quality of work or level of service. In the end, the correct price for any job is based on an agreement between the purchaser and the provider; in other words, the price which the purchaser is willing to pay and the price for which the provider is willing to work.

Xactware's role is to report a market price based on recent transactions that have occurred (submitted repair and remodeling estimates) and industry surveys. Primary data sources include labor, equipment, and material providers; contractors, subcontractors, and service providers; and Xactimate customers. Information is acquired using a combination of surveys (phone, fax, and email), direct data feeds from suppliers, and completed estimate transactions or bids.

Xactware uses a unique approach that analyzes all submissions, identifies the largest group of prices from those submitted, and picks a point within the appropriate range. The intended goal is to provide cost information to the estimator that reflects the most common price recently submitted. This by definition is referred to as a "market price."

Since Xactware's published cost information is a reported market price based on recently acquired submissions, there is no way to be certain that any published price will be appropriate for a specific contractor, repair, or structure. Having cost information that is based on recently submitted prices, however, is an extremely valuable tool in creating appropriate repair estimates, providing a basis from which the estimator can then decide whether the price should be accepted or adjusted.

In addition, since many structures are unique, there are many items and tasks that are either so custom by nature or that occur so seldom that the research or reporting of a market price is not possible. As such, Xactware's published price list is not intended to account for or provide costs for every potential item. Xactimate therefore provides users the full capability to create and/ or modify any costs as needed to match the conditions of the specific job or their company.

For more information, see Xactware's Pricing Research Methodology white paper on the eService Center.

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Each of the labor efficiency settings provides the option to apply an automated minimum charge to the task being performed.

LABOR EFFICIENCIES AND MINIMUMS*

Xactimate offers two options from which to select in the Estimate Parameters window. Each of which applies a different labor productivity rate and therefore labor cost based on the type of job. The options from which to select are:

Restoration, Service, and Remodel

This labor efficiency model can be used in partial loss restoration and remodeling work and includes an assumed amount of time per day spent working in a restoration or remodel environment. This includes factors such as set up of the work or cutting area outside the structure, working around contents, etc.

New Construction

Total (ground-up) reconstruction or in some cases portions of a large partial loss can be addressed by selecting the “New Construction” labor efficiency in the Estimate Parameters window. This efficiency utilizes the same costs for material and labor rates, but employs a higher productivity rate for labor and therefore a slightly lower labor cost in many trades.

Labor Minimums

Each of the labor efficiency settings provides the option to apply an automated minimum charge to the task being performed. Using labor minimums, customers can add standard line items containing materials as needed (DRY1/2, PNTSP, etc.). Xactimate will then ensure that the labor portion of each trade is increased to meet the pre-defined minimum charge. This is accomplished, when needed, by making a post-estimate adjustment to labor.

For more information about labor minimums, visit Xactware.com/laborminimums. For more information about labor efficiencies, see Xactware’s Labor Productivity in Xactimate Pricing on the eService Center.

OVERHEAD AND PROFIT

Overhead costs are additional expenses not charged (attributed) directly to the work being performed. Profit is markup above or beyond all direct and indirect expenses attributed to a job. Profit or markup may appear at a line-item level by increasing the cost of specific materials or labor, or at the estimate level using a general profit percentage in the Estimate Parameters window. Overhead is broken into three specific types:

General Overhead – Expenses that are a cost of doing business, not related to a specific job. Examples include office rent, licensure, advertising, office equipment, payroll for office personnel, etc. They occur regardless of the size or type of job, and they will vary depending upon the size or type of contractor or service provider performing the work.

Within Xactimate, general overhead and profit (O&P) for general contractors are added as percentages in the Estimate Parameters window. Subcontractor overhead and profit is intended to be included in the labor overhead portion of the retail labor rate (see “Job Personnel Overhead” below).

Job-Related Overhead – Expenses related to a specific job but not to a specific task. Examples include portable restrooms, temporary fencing, warning signs, project managers, etc. The need and amount of each varies per job.

Within Xactimate, job-related overhead costs should be added to each estimate as line item costs.

Job Personnel Overhead – Labor expenses not related to wage or burden. Examples include vehicle expenses, uniforms, hand tools, mobile phones, etc. These are expenses for contractors using their own employees and would be apportioned to subcontractor overhead and profit when subcontractors are used.

Within Xactimate, job personnel overhead costs are reflected in the Labor Overhead portion of the Retail Labor rate.

The above information is based on general guidelines only. Ultimately, the amount of overhead and profit, as well as how and where it is accounted for within the estimate, is up to the discretion of the estimator based on the conditions of the job and the service provider performing the work.

For more information, see Xactware's What Is and Isn't Included in Xactware Pricing (O&P) white paper on the eService Center.

SALES TAX

The rates and application (rules) of sales tax vary from one state or province to the next in North America:

Xactware licenses sales tax rates from a thirdparty source. The rules of sales tax application are researched by Xactware directly with each governing authority (state, province, etc.).

United States – The rules of how sales tax should be applied (i.e., materials only, labor and materials, a combination of the two, etc.) are defined at the state level by the tax commission and are applied statewide. The tax rates, however, vary by county or municipality within each state.

Canada – Both rules and rates are defined at the federal and provincial level. Rates do not vary among postal codes within each province.

Xactware licenses sales tax rates from a third-party source (www.taxdatasystems.com). The rules of sales tax application are researched by Xactware directly with each governing authority (state, province, etc.).

O&P on Tax, Tax on O&P settings – States or provinces in which the tax is to be applied only to a portion of the estimate, such as materials, are published with a default setting of “O&P on Tax.” This is done as sales tax is a direct job cost, paid for and collected by the general contractor or service provider. States or provinces in which the sales tax is applied to the entire estimate amount or entire service (i.e., labor and materials) are published with a default setting of “Tax on O&P.” This is done as O&P is a portion of the job cost that is to be taxed by the governing authority.

For more information, see Xactware's Sales Taxes and Overhead and Profit Settings white paper on the eService Center.

DEPRECIATION

Each applicable item in the published Xactware pricing database contains life expectancy information for use in the calculation of a depreciated value. The default life expectancy is based upon the average lifespan of the product (normal circumstances, wear and tear, etc.) and can be modified by using one of the other available condition modifiers (heavy or light usage).

When selected, the use modifiers act as a factor applied to the age entered by the user, therefore creating an “effective age” of the product. The factors are 1.4* for heavy use and 0.6* for light use. As a result, a product that is 10 years old with heavy use will effectively be calculated as if it were 14 years old (using the factor of 1.4).

Life expectancy information is acquired from the following sources:

Structural repair data – The National Association of Home Builders (NAHB)

Personal property data – The Joint Military Industrial Depreciation Guide (JMIDG) and the U.S. General Services Administration (GSA)

Depreciation can also be entered within Xactimate as a percentage or dollar value rather than using the age-based life expectancy calculation. Users can also specify a maximum depreciation within their preferences or in the Estimate Parameters window.

For more information, see Xactware’s Abbreviated Depreciation Information white paper on the eService Center.

PUBLICATION FREQUENCY AND TIMING

Xactware publishes cost information in multiple forms to accommodate the needs of each of its estimating products.

Xactimate – A property insurance estimating software that offers downloadable price list databases for 430* areas in the United States and 37* in Canada. Each price list contains approximately 13,000* line items related to structural repair, structural cleaning, mitigation, and hazardous material remediation. Price list information for Xactimate is published at least monthly and is generally available within the first week of each month. Interim publications for specific regions can be performed as often as weekly in periods of high-demand surge when more frequent reporting is required.

XactContents – A contents estimating program that offers a downloadable price list database for the United States and Canada. Price list information is segregated into two types of databases: 1) SKU-level data, which includes specific brand and model pricing for approximately 3.3 million* items at multiple specific stores (currently United States only), and 2) generalquote data, which includes approximately 5,100* items listed in a “good,” “better,” “best” format (no specific brand or model). Pricing information for XactContents SKU-level data is published at least weekly. General-quote pricing information is published monthly and coincides with the publication of pricing information for Xactimate.

Depreciation can also be entered within Xactimate as a percentage or dollar value rather than using the age-based life expectancy calculation. Users can also specify a maximum depreciation within their preferences or in the Estimate Parameters window.

360Value – An online tool used by agency or underwriting to provide total replacement cost estimates for various structures. Updated pricing information is provided automatically for users of 360Value each quarter.

To receive a notification when published pricing has been updated, subscribe to our email service at <http://my.xactware.com/>. Once your email has been entered, select the option to subscribe to “Xactware’s Published Pricing Notifications.”

**Information is current as of the date of this document*



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